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SOVIET ECONOMIC CHALLENGE

by

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SOVIET ECONOMIC CHALLENGE

RUSSIA'S DRIVE to overtake the United States and make the U.S.S.R. the world's leading economic power is being pressed forward under a far-reaching plan of industrial reorganization proposed by Nikita S. Khrushchev, first secretary of the Soviet Communist Party, in March and ordered into effect by the Supreme Soviet in May.

The Khrushchev plan calls for abolition by July 1 of more than two dozen ministries in Moscow, establishment of over 90 so-called councils of national economy throughout the Soviet Union, and transfer of more than 200,000 industrial enterprises formerly under control of the central ministries to the jurisdiction of the new regional councils.

The sweeping shake-up is of interest to American experts on Russia both for what it reveals and for what it portends. The need to institute such a drastic reorganization testifies to the serious faults that persist in the economic order after four decades of totalitarian rule. The wholesale reshuffling of administrators required by the program points up the continuing struggle in the Kremlin and the need of the Khrushchev group to entrench itself more firmly in power. And the scope of the changes indicates how formidable an adversary the United States will face if the reorganization is carried through successfully and accomplishes its purposes.

First inkling of the Khrushchev plan was given in a report by *Pravda* last Dec. 25 that the Central Committee of the Communist Party had complained of economic strains, had asked for revision of the current five-year plan, and had called for organizational changes in management of the national economy. At a meeting in mid-February of this year, the Central Committee instructed its Presidium (the top echelon of the party) and the Council of Ministers (Soviet cabinet) jointly to draw up proposals for a reorganization of industrial management.

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The resulting proposals formed the basis of a lengthy report made by Khrushchev, Mar. 29, to the country at large.¹ The report summarized the shortcomings of Soviet industry, outlined Khrushchev's plan to overcome them, and directed that the plan be discussed throughout the nation under the leadership of local party and government organizations. After five weeks of public discussion, the Supreme Soviet (legislative branch) began debating the plan in early May. It modified the original proposals to some extent, and on May 10 adopted a version drafted by a committee of 50 top leaders headed by Khrushchev.² Administrative changes under the new plan have been embodied in the Constitution of the U.S.S.R.

REMOVAL OF BUREAUCRATIC OBSTRUCTION TO OUTPUT

Khrushchev noted in his March report that the Soviet Union possessed the resources and industry to "achieve its chief economic goal"—surpassing the production of the United States—but declared that "further improvement in the management of industry and construction" was imperative. The whole tenor of the report made it clear that the Soviet leaders were seeking solutions to the multitude of problems caused by remote control of industry from Moscow.

Industry had become too complex and too dispersed for direction from a single center; individual ministries and other agencies had engaged in empire-building; raw materials, personnel, and research facilities had not been used to best advantage. For these and other reasons, efficiency and output had suffered.

Citing examples of inefficiency and waste under the existing system, Khrushchev said that, of the 360,000 tons of pig iron and steel ingot produced annually in Leningrad, only 250,000 were used by Leningrad industries and 110,000 tons were shipped elsewhere. At the same time, Leningrad plants received some 40,000 tons of iron and steel from other parts of the country. He told of a factory manager who spent 200,000 rubles to build a fence separating his

¹ Presented in the form of "theses for discussion," the Khrushchev plan ("Report on the Further Organizational Improvement of Industry and Construction") was published in all major Soviet newspapers.

² Other members of the 50-man committee included Premier Nikolai Bulganin; five first deputy premiers (Vyacheslav Molotov, Lazar Kaganovich, Anastas Mikoyan, Maxim Saburov, and Mikhail Pervukhin); ex-Premier and now Minister of Electric Power Stations Georgi Malenkov; top party officials; and premiers of the 15 republics which comprise the Soviet Union.

plant from a neighboring one for no other reason than that the two enterprises were attached to different ministries. Although wheeled tractors were the kind required, interdepartmental disputes had resulted in plans to build thousands of unneeded caterpillar-type tractors.

Construction activity was no more efficient. For example, said Khrushchev, construction work in Chelyabinsk Region in the Urals was carried on by no fewer than 182 building organizations subordinate to 25 ministries and departments in Moscow. In nearby Sverdlovsk Region some 200 different organizations, under 30 ministries and departments, were engaged in building operations; frequently, several were working in one district, even on one street, at the same time.

Complexities of the Soviet administrative system had swollen the bureaucracy to proportions that made efficiency impossible. Personnel engaged in supply, sales, and deliveries under the industrial and construction ministries alone numbered 850,000. Khrushchev estimated that if workers in these organizations could be cut only 10 per cent the government would save a billion rubles a year.

The objective of the management decentralization program, Khrushchev said in his Mar. 29 report, was to "combine concrete and efficient guidance on the local level with strictly centralized planning on the national level." That is, managers of local industrial plants and construction projects would be given authority to make operational decisions on the spot but national policies would still be drafted and national quotas would still be fixed in Moscow.

By that means, Soviet leaders predicted during the May session of the legislature, an atmosphere more conducive to creative activity would be developed, new production techniques would be adopted more quickly, and output would be increased even without further capital investment. Moreover, about 1.6 million engineers and technicians then engaged in office work in Moscow would be made available for more productive activity in the field. And better use would be made of the nearly 500 industrial and construction research institutes and their 45,000 personnel.

REPLACEMENT OF MINISTRIES BY REGIONAL COUNCILS

The reorganization law enacted by the Supreme Soviet on May 10 abolished 27 of the all-union and union-republic

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ministries of the U.S.S.R.³ It provided for the continued existence of only seven all-union industrial ministries⁴—Aviation Industry, Chemical Industry, Defense Industry, Electric Power Stations, Medium Machine Building, Radio Engineering Industry, and Shipbuilding Industry. Industrial and construction enterprises previously under jurisdiction of the abolished ministries (as well as those under all except one of the remaining ministries) are to be subordinate to the newly established councils of national economy. Only enterprises of the Ministry of Medium Machine Building, which is believed to be in charge of atomic weapons development, will remain under direct control of the central ministry in Moscow.⁵

Councils of national economy are being set up in the 92 new economic administrative regions created by the law. The Russian Soviet Federated Socialist Republic, largest in the Soviet Union, will be divided into 68 economic administrative regions—roughly one for each of its autonomous republics, territories, and regions. The highly industrialized areas of the Russian Republic each will constitute an economic administrative region and each will have its own council of national economy. In undeveloped areas, several regions may be combined under a single council of national economy.

Moscow City, whose 600 large industrial enterprises produced seven per cent of the total national output in 1956, will have its own council of national economy, as will Moscow Region. The highly developed Ukrainian Soviet Socialist Republic, responsible for about 18 per cent of all Soviet industrial output, will contain 11 economic administrative regions. The other 13 Soviet republics will each comprise a single economic region.

Each council of national economy will be responsible to the council of ministers of the union republic in which it is located, and its chairman will be a member of that re-

³ The Union of Soviet Socialist Republics is made up of 15 constituent (or union) republics, called soviet socialist republics. Within these, and subordinate to them, are autonomous socialist republics, territories, regions, districts, etc. The Soviet Constitution divides ministries of the central government into two categories, all-union and union-republic. All-union ministries exercise direct control over the various industries and activities considered to be of national significance. Union-republic ministries, which work through counterpart ministries in each of the constituent republics, are responsible for industries and activities over which the central government is, for a variety of reasons, willing to relinquish direct operational control.

⁴ Eighteen other all-union and union-republic ministries not concerned primarily with industrial activities were retained.

⁵ Mikhail G. Pervukhin, a first deputy premier and a recognized troubleshooter, was named to head the Ministry of Medium Machine Building on May 2.

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public's council of ministers. The councils of national economy will be responsible for the operations, finances, and profit-making of all industrial enterprises under their jurisdiction. They will draw up and administer local production plans and will oversee deliveries of raw materials and semi-finished goods, both within their own areas and to other areas. Each council will have a single, integrated construction agency to serve all its industry. Thus, the union-republic governments will be able to take an active part in management and development of industry and in execution of economic plans.

RETENTION OF CENTRALIZED PLANNING AND CONTROL

Despite decentralization of its day-to-day operational management, Soviet industry will still be run from Moscow. The real Soviet government—the Presidium of the Communist Party Central Committee⁶—will continue to determine economic policy for the nation.

On the basis of party directives, government agencies in Moscow will still draw up economic plans, set prices and wages, fix tax rates, control budgets, distribute capital investments, and allocate scarce materials. In the past, the party presidium's economic directives were transmitted through heads of the economic ministries. Under the new plan, directives will be transmitted to the regional councils of national economy through the union-republic premiers, who have replaced the economic ministers on the Council of Ministers. Thus, as before, the Council of Ministers is the constitutional channel through which party policy is transmitted downward to the operational level.⁷

To strengthen central control over the decentralized industrial setup, several of the agencies attached to the Council of Ministers will be reorganized, and a number of the non-industrial ministries will take on added functions. The top planning agency—the State Planning Committee or Gosplan—is being expanded to handle the added burden of planning and coordinating the activities of the 92 new

⁶ The premier and at least five of the six first deputy premiers are members of the party presidium; although they run the government as the top echelon of the Council of Ministers, their real authority derives from their high rank in the party. Party chief Khrushchev, who fathered the reorganization plan, is not even a member of the Council of Ministers.

⁷ The reorganization plan provides for inclusion of the 15 union-republic premiers in the U.S.S.R. Council of Ministers. Although this arrangement might be considered roughly analogous to inclusion of the 48 state governors in President Eisenhower's cabinet, it is not expected, under the Soviet system, to subtract from the supremacy of the central government in formulating policy.

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councils of national economy. Furthermore, it has been assigned the new responsibility of seeing that its directives are carried out.

Gosplan will continue to draw up long-range plans for development of the national economy and will get back its former responsibility for short-range planning and general economic problems.⁸ Gosplan's increased authority and scope were evidenced by the elevation of its new chairman—I. I. Kuz'min, a hitherto obscure party functionary—to the rank of first deputy premier and elevation of its key division chiefs to ministerial rank with seats on the Council of Ministers.

Checking and auditing operations will continue to center in Moscow under the ministries of State Control and Finance. State Control is the general watchdog over state property and, together with Finance, over expenditure of state funds. Khrushchev said on Mar. 29 that the Ministry of State Control should be reorganized and decentralized so that its officials would be brought closer to the scene of violations and corrective actions could be taken on the spot.⁹

The Ministry of Finance will continue to fix wages, prices of industrial raw materials, and wholesale and retail prices. It will still draw up the consolidated state budget of the Soviet Union. Budgets of the individual republics will continue to be approved and coordinated in Moscow as before.

⁸ The latter functions had been transferred from Gosplan to a new agency—the State Commission for Short-Range Planning of the National Economy—in April 1965. That agency was abolished May 10, 1967.

⁹ Although Khrushchev criticized the ministry severely, he did not blame Molotov, who has been its head since November 1956, for any of the shortcomings.

Shifts In Soviet Economic Policies, 1917-1957

SOVIET THEORETICIANS describe the Russian form of government as a "dictatorship of the proletariat" and the economic system as a "socialist economy." According to Marxist doctrine, the present stage is a "transition between capitalism and communism"; in the ultimate stage, class distinctions and antagonisms will disappear and the state will "wither away."¹⁰ Meanwhile, the state retains direct, complete control over the means of production which are called "socialist (or public) property."

STRATEGIC RETREAT TO CAPITALISM IN 1920s

Nationalization of all means of production—land, banks, industrial enterprises including even small handicraft industries, and commercial establishments—was begun the day after the Bolsheviks seized power in Russia on Nov. 7, 1917. And under so-called militant, or war, communism (1918-1921) all private trade was forbidden, rationing was introduced in the cities, and peasants were forced to turn over to the state all produce not needed for their own subsistence. But this strict application of Communist principles could not overcome the ravages of war, revolution, and civil strife. Three years of militant communism left the people in the cities cold, hungry, and cut off from the countryside. Famine raged because peasants refused to produce food that would be confiscated by the state. Industrial output declined catastrophically.

To maintain themselves in power the Bolsheviks were forced to abandon militant communism in 1921 and revert temporarily to a form of capitalism. Under the New Economic Policy, which prevailed through 1927, forced grain requisitions were discarded in favor of a tax in kind. Once the peasant had paid the tax, he was allowed to sell his surplus commodities on the open market. N.E.P. was designed primarily to develop small industry, in the form of private enterprises or industrial cooperatives, in order to spur production of consumer goods and re-establish trade between the cities and rural areas. Large-scale industry and foreign trade remained state monopolies.

¹⁰ Stalin, in the last major Soviet pronouncement on "withering away," said in 1939 that the state would remain even under communism "unless capitalist encirclement is eliminated and unless the danger of foreign military attack has disappeared."

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During the period 1921-1927, the Bolsheviks conceived of the economy as consisting of two sectors, capitalist and socialist. They sought by administrative and fiscal measures to strengthen the socialist sector, which contained heavy industry, and to weaken the capitalist sector. At the same time, they tried, so far as possible, to encourage all types of production in order to revive the nation's productive processes. By the end of 1926, output of industry taken as a whole had been restored to the 1913 level and production of heavy industry to about 60 per cent of that level.

The N.E.P. era saw the introduction of economic planning on a national scale. The first plan (State Plan for the Electrification of Russia) aimed at nothing less than a technological revolution in industry, agriculture, and transportation. Developments projected under that plan were absorbed by the State Planning Commission, forerunner of the present Gosplan, which had been established in 1921 as the government's central planning agency.

The national plan has come to play a central role in Soviet life. It is a detailed statement of production quotas drawn up by Gosplan under basic policies established by the high command of the Communist Party. In drafting the national plan (drawn up for periods of a month, quarter, or year, as well as for five years) Gosplan first assembles data on the fulfillment of the previous plan submitted by individual enterprises, ministries, etc., as well as by the republics, regions, etc. Gosplan then fixes the main targets for the next plan. Finally, it draws up preliminary balance sheets to attain the desired goals.

When approved by the Council of Ministers the national plan is issued as a directive binding on all subordinate agencies. It forms the basis of the more detailed plans worked out by them. Each agency has goals that must be met within specified periods. Although planning was introduced during the early 1920s, detailed planning of the type now carried out in the Soviet Union did not come until later.

INDUSTRIALIZATION UNDER EARLY FIVE-YEAR PLANS

The First Five-Year Plan, which marked the end of the temporary reversion to capitalism, went into formal operation on Oct. 1, 1928. Its basic aim was to convert the

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primarily agricultural Soviet economy into an industrial economy. On the basis of progress made during the first year, Moscow decided that the plan should be completed in four and one-quarter years. At the end of 1932, it was announced that "in the main" the plan had been carried out successfully.

Under the First Five-Year Plan a vast amount of industrialization was accomplished: Industrial production, which had accounted for only 48 per cent of the combined output of industry and agriculture in 1928, rose to 70 per cent of total production in 1932. According to Soviet statistics, the annual rate of increase in industrial output had averaged 22 per cent since 1928. The iron and steel, automobile and tractor, machine tool, chemical, and aviation industries were either restored or started from scratch. Private industrial enterprise was drastically curtailed.

The authorities in Moscow decided in 1929 that the *kulaks* (rich peasants) should be eliminated and all farms collectivized. Up to that time only 21 per cent of the farms had been put in collectives; in less than two months of forced collectivization the figure zoomed to 55 per cent. The drive caused tremendous losses of crops, livestock, and human lives, and extreme application of the policy was soon abandoned. But collectivization was continued, and by the end of the First Five-Year Plan nearly two-thirds of all peasant holdings, covering three-fourths of the cultivated area, were in collective farms.

The heavy strains caused by rapid, large-scale industrialization and collectivization were eased with introduction in 1933 of the Second Five-Year Plan, which shifted the emphasis to mastering new techniques and modernizing industry. The *kulaks* having been liquidated under the First Five-Year Plan, the second called for liquidation of capitalist elements remaining in the industrial sector of the economy. By the end of 1935, more than 95 per cent of all production facilities had been nationalized.

On the whole, production goals set by the Second Five-Year Plan were surpassed, most notably in the field of metals. During 1937, last year of the plan, the U.S.S.R. turned out 17.7 million tons of steel, 14.6 million tons of pig iron, and 13 million tons of rolled metal. In addition it produced 128 million tons of coal, 30.5 million tons of

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crude oil and gas, and 36.4 billion kilowatt-hours of electricity.

Progress in the transition from an agricultural to an industrial economy during the First Five-Year Plan necessitated reorganization of administration and management. The Supreme Council of National Economy, which had been regulating economic activities since 1917, was split up in 1932 to form the first three industrial ministries (then called people's commissariats)—Heavy Industry, Timber Industry, and Light Industry. Two years later Stalin gave orders for a reorganization of industrial management which are echoed in some respects by the present Khrushchev program.

Like Khrushchev in 1957, Stalin in 1934 deplored the "bureaucratic routine methods of management in economic commissariats." He directed all industrial agencies, from commissariats down to individual factories, to junk systems of management based on functional principles and adopt systems based on regional administration. Local government agencies were to take a more active part in managing industry within their areas; control of only enterprises producing goods of national significance was to be kept by the central government. Plant managers were to have more say in day-to-day operations. It was at that time that union-republic and local commissariats were established to administer industries of less than national importance. Execution of Stalin's plan of industrial decentralization was interrupted by the need to prepare for the war that loomed on Europe's horizon.

CHECK TO INDUSTRIAL EXPANSION IN WAR YEARS

Under the Third Five-Year Plan, introduced in 1938, the six industrial commissariats were split up into more than 20 and specialized individual commissariats were put in charge of all industries vital to national defense. At the same time, the Soviet Union began to shift its industry eastward, across the Urals, both to give it better protection against attack and to bring it closer to sources of raw materials. The policy of industrialization was pressed and Soviet leaders announced in 1939, on the eve of World War II, that they had succeeded in building a "socialist society" and that the U.S.S.R. had "entered the phase of gradual transition from socialism to communism."¹¹

¹¹ N. A. Voznesensky, *Soviet Economy During the Second World War* (1949), p. 14.

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The Third Five-Year Plan was closed out prematurely in June 1941 by the German invasion of Russia and was replaced by the wartime National Economy Mobilization Plan. Manpower and industry were mobilized for defense, and the State Defense Committee, a war cabinet composed of top party and government leaders, was set up and given absolute powers to run the country.

During the 13 years of the first three five-year plans (1928 to 1941) the Soviet industrial system had been revolutionized. In that period, Soviet steel production jumped from 4 million tons to about 19 million tons. By the outbreak of World War II, the U.S.S.R. had become the third largest steel producer—topped only by the United States and Germany. A leading authority on the Soviet economy, Gregory Grossman of the University of California, has estimated that the annual rate of growth of the Soviet economy up to 1941 had been 6.5 to 7 per cent.¹²

RAPID GROWTH OF SOVIET ECONOMY SINCE WORLD WAR II

At the end of World War II in 1945, the Soviet economy was considerably weaker than before the German invasion, but during the postwar years the prewar rate of growth has been resumed.¹³ Abram Bergson of Columbia University has estimated that the yearly growth rate of the industrial sector of the economy for the whole period of the Fifth Five-Year Plan (1951 to 1955) averaged 11-12 per cent, and that during the first year it probably ranged as high as 15-16 per cent. Under the preceding five-year plan, immediately after the war, even higher rates had been achieved.¹⁴

The Sixth Five-Year Plan, which went into operation last year, calls for expansion of the national economy by about 10.5 per cent a year, or by 50 to 60 per cent when the plan comes to an end in 1960. Although that goal is short of the 68 per cent increase claimed by Soviet statisticians for the Fifth Five-Year Plan, it is three times the rate of growth of the American economy from 1950 to 1955.¹⁵

¹² Abram Bergson (ed.), *Soviet Economic Growth* (1953), p. 9. Western economists are able only to estimate rates of development for the U.S.S.R. because there are gaps in Soviet statistics and because the published statistics are considered unreliable.

¹³ Joseph A. Kershaw, "Recent Trends in the Soviet Economy," *Annals of the American Academy of Political and Social Science*, January 1956, p. 38.

¹⁴ Abram Bergson, "The Russian Economy Since Stalin," *Foreign Affairs*, January 1956, p. 219.

¹⁵ Calvin B. Hoover, "Soviet Economic Growth," *Foreign Affairs*, January 1957, p. 266. A study issued by the congressional Joint Economic Committee in 1955 conceded that the future rate of growth in the Soviet Union "might be somewhat higher" than that in the United States, but the authors believed that the "absolute gap in the two economies" probably would widen in favor of the United States.

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According to figures published in January 1957 by the Soviet Central Statistics Administration, industrial production during 1956, first year of the sixth plan, increased 11 per cent over 1955, including a rise of 11.4 per cent in capital goods and 9.4 per cent in consumer goods production. In 1956 the Soviet Union turned out 35.8 million tons of pig iron, 48.6 million tons of steel,¹⁶ 37.8 million tons of rolled metal, 78 million tons of iron ore, 83.8 million tons of petroleum, 13.7 billion cubic meters of gas, and 192 billion kilowatt-hours of electric energy.

Khrushchev asserted in his report on Mar. 29 that Russia's industry had been growing "at a rate unknown in the entire history of capitalist development." He declared that by 1957 the volume of industrial production had increased "more than 30 times as compared with pre-revolutionary production and almost four times as compared with 1940 production."

Despite last year's record industrial production, recent events have led some American observers to conclude that the Soviet Union may be suffering severe economic strains. That conclusion is based only in part on the need to undertake the current reorganization. Other evidence of malfunctioning of the economy includes the Central Committee's call last December for downward revision of goals of the Sixth Five-Year Plan; Pervukhin's announcement to the Supreme Soviet in February that industrial growth this year would be only about 7 per cent above that of 1956; the government's virtual repudiation of the state loan in April. Also noted as evidence of economic difficulties are the government's failure to announce any significant cuts in consumer prices, the sharp drop in the value of the ruble in the international market during the past year,¹⁷ and the Soviet Union's unfavorable balance of trade with the non-Communist world in 1956. To meet the foreign trade deficit of about \$155 million incurred last year, the U.S.S.R. reportedly had to sell around \$100 million worth of gold.

¹⁶ The level of steel production reported for the U.S.S.R. in 1956 was attained by the United States 50 years earlier, in 1926.

¹⁷ A Vienna dispatch, June 15, reported that fears of money devaluation had set off panic buying in parts of the Soviet Union.

Implications of Khrushchev Economic Program

THE KHRUSHCHEV PROGRAM for decentralization of industrial management is viewed by most Western experts as an effort to bolster the strength of the Soviet regime internally and thereby to improve the position of the U.S.S.R. in the international sphere. Maintenance of internal power has been the prime concern of Soviet rulers for four decades and, with few exceptions, the overriding consideration in their formulation of foreign policy. Viewed in that context, the current decentralization program is seen as having aims that go far beyond attainment of greater efficiency and enlarged production. Achievement of various additional objectives might well have as great an effect on Soviet-American relations as the planned expansion of industrial output.

NEED TO RELIEVE INTERNAL PRESSURES AND STRAINS

Soviet rulers hope that the decentralization program will solve certain basic economic problems and thus relieve the pressures generated by Stalin's policy of ruthlessly expanding the economy at whatever cost. By the time of Stalin's death the tensions built up among all classes had risen to the point where they were believed to constitute a threat to the regime.

When Malenkov succeeded Stalin as premier in 1953, he sought to ease some of the pressures by making a number of concessions. Retail prices were reduced, prices paid by the state for compulsory deliveries of farm commodities were increased, the amounts workers were forced to subscribe to the state loan were cut in half. Malenkov hoped to expand industrial production in general by giving managers more initiative, and he promised that industrial expansion would bring about a larger output of consumer goods.

Powerful inflationary forces brought into play by the Malenkov program, and the increased capital investment needed to carry it out, threatened to stretch the Soviet economy beyond its capacity. When the strain became too great Malenkov was forced to resign as premier. According to a British authority on Soviet economic affairs, "Malenkov's attempt to do the impossible was foredoomed to fail-

ure, and certainly was one of the primary causes of his downfall."¹⁸

Most of Malenkov's "softer" policies were reversed by Khrushchev but he later felt obliged to reinstitute certain concessions and to introduce some new ones—higher farm prices, shorter working hours, higher pensions, and the like. Thus, the government again found itself in a situation where the national economy was called upon to yield more than its resources would permit. The result was a search for forms of economic organization that would increase the productivity of available resources.

The first concrete step was taken last December when the Central Committee of the Communist Party ordered a cutback in the capital investment originally called for by the Sixth Five-Year Plan. *Pravda* on Jan. 12, 1957, characterized that action as instituting a policy "in which a rapid growth rate is made possible not . . . so much by new investments as by more efficient organization." In other words, the new policy substituted the goal of maximum efficiency at minimum cost for the earlier policy of fulfilling the production plan at any cost. The revised policy called for a new form of industrial organization to carry it out—and the form chosen was decentralized management.

BROADENED BASIS OF SUPPORT FOR PRESENT LEADERSHIP

Consolidation of the power of the regime is believed to be one of the main things the "collective leadership" hopes to accomplish by abolition of the industrial ministries and decentralization of management. By breaking up the huge bureaucracy that grew up during the industrialization carried out under Stalin and replacing it with a corps of administrators of their own choosing, the present leaders will relieve a situation that held danger both for them and for the Communist Party.

Thousands of desk jobs in Moscow will be wiped out and their incumbents dispersed to the new, far-flung regional councils of national economy. By that action, the Khrushchev group will split up the class of professional and technical specialists that has been more preoccupied with technology than with Communist Party ideology. That class

¹⁸Alexander Nove, "Problems of Economic Decentralization," *Problems of Communism*, March-April 1957, p. 16. Malenkov's loss of the premiership was believed to have been due also to his attempt to give greater independence to the managerial group. See "Soviet Economic Strains," *E.R.R.*, Vol. I 1955, pp. 179-184.

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had come to embody increasingly powerful vested interests and to pose a potential challenge to the party itself.

Khrushchev's decentralization program is seen also as a bid for broader popular support of the regime. Presentation of the plan in the form of "theses for discussion" was intended to give the populace a feeling that it was being offered an opportunity to take a hand in shaping major government policies.¹⁹ The subsequent open debate on the plan by the Supreme Soviet, and the revisions that resulted, added to public belief that this was something different from earlier directives imposed from above with no regard for popular sentiment.

Discussion of the plan during April revealed widespread hostility among factory personnel toward their superiors in Moscow and a general desire for more say at the grass roots. While only a very limited degree of local control can be allowed under a totalitarian system, the decentralization program is an attempt to strike a more satisfactory balance between demands of the factory managers and workers on the one hand and requirements of a planned economy on the other.

A significant aspect of the bid for wider popular support is the increased responsibility given the 14 non-Russian republics of the Soviet Union for supervision of industrial operations within their own borders.²⁰ Inclusion of the premiers of the various union republics in the U.S.S.R. Council of Ministers for the first time will give the people of those republics the feeling of a double gain—increased responsibility in running their own economies and greater participation in the government of the Soviet Union. Thus the decentralization of industrial management is expected to elicit greater allegiance from the national minorities in the U.S.S.R.; Soviet leaders have not always been able to command unquestioned loyalty from that quarter in the past.

The reorganization program contains a further bid for

¹⁹ Khrushchev told the Supreme Soviet on May 7 that more than half a million meetings, attended by nearly 41 million workers, had been held to discuss the plan. Some 2.3 million persons had made proposals and more than 68,000 had sent suggestions to the newspapers. Before announcing a semi-permanent "freeze" of the national debt on Apr. 10, Khrushchev made speeches to three large meetings of workers in different parts of the country. He outlined what was "under consideration" and invited resolutions of approval, which were promptly forthcoming.

²⁰ The first step in that direction was taken in the spring of 1954 when the Ukrainian Republic was given control over its coal industry and the Azerbaijan Republic over its petroleum industry.

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mass support in its implied promise of more consumer goods. Although Khrushchev emphasized in his reports while the plan was under consideration that its primary aim was to increase the output of heavy industry,²¹ he has since hinted that it will enable the Soviet Union to overtake the United States in production of things needed by the ordinary citizen. He predicted in Finland, June 12, that the U.S.S.R. will surpass this country in per capita production of butter, milk, and meat within the next five years—"and soon we will do the same in industrial production."

WORLD GAINS FROM HEIGHTENED ECONOMIC STATUS

In the sphere of international relations, Soviet leaders are counting on the reorganization of industrial management to bring the political and economic advantages that flow from possession of great industrial power. Should the Soviet Union succeed in overtaking the United States in the economic field, the prestige gained in the eyes of other nations—especially the undeveloped and uncommitted countries—would greatly strengthen the world position of the Moscow government.

Recognizing the extraordinary propaganda advantage that would accrue if the Soviet Union became the world's No. 1 economic power, Khrushchev told a Leningrad conference of agricultural specialists on May 22:

We are bound to win this competition. The victory will have a greater effect than that of the H-bomb. . . . The efforts we make to advance our economy and to improve the welfare of the people will have a greater effect than anything else on the minds of hesitating people. And such people will be more and more inclined to side with us . . . against capitalism.

The Soviet government is looking to the increased production expected under the decentralization program to help meet the extraordinary economic commitments it has incurred abroad. Events of the past year have brought an increase in Moscow's obligations in Eastern Europe which has been estimated to range as high as 8 billion rubles (\$2 billion at the official rate of exchange).

Last October's bloodless revolt in Poland and bloody revolution in Hungary have imposed heavy burdens on

²¹ Khrushchev said on Mar. 29: "Only given the general, high development of . . . heavy industry—the iron and steel industry, fuel industry, power engineering, machinery, chemistry—are the necessary conditions created for the development of light industry and agriculture."

Soviet Economic Challenge

Moscow. Both satellites had been expected to contribute to planned Soviet economic growth under the Sixth Five-Year Plan. Instead both have become drains on the Soviet economy in currency, raw materials, and manufactured goods. The U.S.S.R. had to extend a grain loan and trade credits to Poland totaling 1.1 billion rubles, and in addition to cancel debts amounting to 2.1 billion rubles. Soviet aid to Hungary is reported to have reached about 1 billion rubles since October, and that has come on top of a 100 million ruble loan (consisting of goods and Western currencies) extended by Moscow shortly before the revolt.

East Germany last July cut in half her contribution to the upkeep of Soviet troops in her territory and thus increased Soviet outlays by nearly 1.5 billion rubles. Then in January the Soviet Union had to grant its German satellite a \$40 million ruble loan. Other countries in the Soviet bloc have been receiving substantial amounts of goods and financial aid from the U.S.S.R., and it has been estimated that assistance extended to them in 1957 may range as high as 3 billion to 4 billion rubles.

In addition to help given its satellites, the Soviet Union has undertaken a sizable program of development aid to a number of non-Communist countries in an effort to counter American assistance programs. Soviet commitments in Afghanistan, Egypt, India, Indonesia, and Syria amounted to about \$500 million last year.

DIMINISHED THREAT OF WAR UNDER KHRUSHCHEV PROGRAM

Many Western experts on the Soviet Union maintain that an undertaking like the decentralization program carries strong implications that the Soviet Union needs and desires peaceful relations with the United States and other nations for an indefinite period of years. Charles E. Bohlen told reporters when departing from Moscow, Apr. 18, after four years of service as American ambassador, that the Kremlin could hardly believe that war was imminent inasmuch as it was planning to uproot its industrial system in a long-range gamble for greater efficiency. George F. Kennan, former U.S. ambassador at Moscow, told a New York audience, May 7, that he had seen no evidence that the Kremlin desired a third world war. He added that too little consideration had been given in the West to the post-Stalin changes in the U.S.S.R., "both in spirit and method of internal administration."

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Khrushchev himself implied in his Leningrad speech of May 22 that Russia preferred to compete with the United States in the field of production rather than on the field of battle. He said the Soviet Union was "not going to blow up the capitalist world with bombs." If the U.S.S.R. could overtake the United States in per capita production of meat, butter, and milk, it would have "hit the pillars of capitalism with the most powerful torpedo yet seen."

During the filmed interview with American newsmen telecast in the United States on June 2, Khrushchev said that the Soviet Union wanted to "avoid a military conflict" and to "compete with capitalism by peaceful means, economically and otherwise." Commenting on that statement in the *Washington Post* the following day, Kennan said he believed, "on the basis of a considerable body of other evidence," that the Soviet party chief was "speaking the truth."



